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C O N F I D E N T I A L SECTION 01 OF 02 ATHENS 002982

SIPDIS

DSCA FOR ARTHUR HOTOP

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SUBJECT: STATUS OF GREEK F-16 BUY

Classified By: Ambassador Charlie Ries for Reasons 1.4 (B,D)

1. (C) Negotiations on the GoG purchase of 30 F-16 aircraft, with an option for a further 10, are moving forward. This will complete the process formalized by the July 19 purchase decision of the Greek Government's Council for Foreign Affairs and Defense (KYSEA). The responsible Air Force office leading the negotiations, SAF/IA, expects to deliver a final Letter of Offer and Acceptance to the GoG November 28. The final, total price of the full 40-plane purchase will be approximately \$2,672,000,000 with a fly-away price for the aircraft of \$44.6 million (assuming a 40-plane purchase) or \$45.9 (assuming a 30-plane purchase). Once the LOA is delivered, the Greek Government must sign and provide an initial payment in the amount of approximately \$70 million within 30 calendar days in order to avoid Lockheed-Martin production line gap charges of up to \$114 million.

Ministry of Finance: A Fly in the Ointment???

2. (C) According to all indications, Minister of Defense Spiliotopoulos is eager to sign the LOA as soon as possible. His staff informed Post's Office of Defense Cooperation (ODC) last week that the Minister was ready to sign immediately upon LOA delivery. The big question surrounding the deal is elsewhere, in the role and position of the Ministry of Finance. Our Defense Ministry contacts are clearly acting on the assumption that Finance either has no say in the matter, that the key players in Finance actually agree with the purchase arrangements, or that if they do not agree, they can be easily rolled.

3. (C) Perhaps Defense knows something we do not. But it appears to us the Finance Ministry is acting in a manner consistent with intense opposition to the purchase. It sent only low-level budget staff members to most bilateral meetings on financing the buy, and it was only through a great deal of pressure that Finance agreed to send any staff whatsoever to the November 8 meeting on finance issues with USG and Lockheed-Martin staff, who had flown in from the U.S. for the discussion.

4. (C) Furthermore, the Ministry has refused to engage substantively or react to the extensive financial information the USG and Lockheed have provided to date. Instead, Finance staff have continued asking for more data. We still do not have an indication as to what financing options the GoG is planning to utilize for the purchase, including a Standby Letter of Credit to cover termination liability and/or a "deferred payment" plan developed by Lockheed.

5. (C) Such reluctance would be understandable. As a result of the accounting shenanigans of the previous Greek government, Greece's budget has come under formal EU monitoring procedures. The Karamanlis Government committed itself to a huge reduction of the budget deficit from 6.6% of GDP in 2004 to less than 3% in 2006. While it is attempting to achieve this through a number of means, including securitizing debt and reducing tax evasion, it must also reduce expenditures. In fact, PM Karamanlis' economic policy speech at the Thessaloniki Trade Fair mentioned just one specific expenditure reduction: in the defense budget. One last point: Minister of Finance and National Economy Alogoskoufis is a powerful actor whose views are taken seriously by the Prime Minister. Logic would dictate that his views on a multi-billion dollar purchase would be taken seriously in the PM's circle.

The Press Angle

6. (C) The purchase has also come under withering media fire, which the GoG has only partially been able to counter effectively. Minister of Defense Spiliotopoulos' presentation in Parliament on November 18 in support the F-16 purchase, for instance, was largely drowned out by negative reactions in the pro-PASOK media. An extreme but indicative comment in Ependitis (pro-PASOK, centrist economic weekly) says that Greece is always buying weapons "from its enemy, the United States", whose interests it says clash with those

of Greece. Greeks should "remember the unbearable pressure for the Annan Plan, the recognition of Macedonia, the Balkan destabilization with Bosnia, etc." says the author. "It's supposed, however, that these planes, which cost more than their weight in gold, are being bought in order for us to arm ourselves, not to help the American economy or to appease whatever president is in power." Ethnos (pro-PASOK, left-of-center daily), under the headline "Costs of F-16 take flight with bilateral agreement," focuses on the purchase of the planes being done outside the standard competitive process.

Comment

17. (C) Although it remains to be seen whether Finance wants to, or even can, impede the F-16 deal, Post is working the Ministry, providing as much data as possible as quickly as possible. With the green eyeshade types, we also don't miss an opportunity to point out that a Eurofighter alternative would be much more expensive. We are furthermore responding to unfair criticism in the media of the purchase, whenever appropriate. Although this deal may well be a sure thing, we're not taking it for granted.
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